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SUBJECT: SOUTH OSSETIA DONORS STEERING COMMITTEE ADDRESSES  
WATER PROJECTS

REF: TBILISI 1619

Classified By: Charge d'Affaires, a.i., Mark X. Perry for reasons 1.4(b &d).

#### Summary

1. (SBU) In a meeting August 2, the Steering Committee for the OSCE-led economic rehabilitation projects in South Ossetia conditionally approved three water-related projects for contracting, although the Georgian and South Ossetian sides made final approval contingent on resolving some remaining technical and legal questions about the projects. Contracts have not yet been finalized for three school rehabilitation projects approved in early July (reftel) because of contractual wrangling with the winning bidders. International donors stressed the need for urgency in implementing the projects and for sharing as much information as possible with the Steering Committee and the sides. End Summary.

#### Water, Water Everywhere

2. (C) Prior to the meeting we had heard several reports, including from officials at OSCE, that Tskhinvali was once again without drinking water and that a new round of water-related reprisals was looming. When we reached Tskhinvali for the meeting, however, OSCE's Tskhinvali-based

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Project Coordinator Ryan Grist privately assured us that was not the case. He said that the city had water -- indeed, it had always had at least some water even at the height of the crisis earlier in the summer -- and that the dispute seemed to be on the road to resolution. While this lowering of tensions may have helped set a positive tone for the Steering Committee meeting, a separate meeting (immediately before our meeting) on the older EC-funded South Ossetia program may have had the opposite effect; several participants arrived from the first meeting unhappy that EC money for an electricity project had expired because it was not acted on in time. Separately, the German DCM told us that he was concerned that a German specialist, in Georgia to work on engineering projects as part of the donors' program, had been waiting for two and a half months for the de facto authorities to permit her to enter South Ossetia. After consulting with Grist, the German DCM decided not to raise the issue -- which apparently originated when the de facto authorities said the specialist's name had been omitted from an entry list early in her stay -- in the Steering Committee.

3. (SBU) Once the meeting convened, OSCE reviewed three water projects, the Avnevi-Nuli-Kimasi water pipelines, the Tskhinvali reservoir project, and the

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Ksuisi-Gugutiantkari-Divesi pipeline. In each case OSCE had received a number of bids and made a recommendation for a contract. While no one voiced objections to the projects or the recommended firms, each side raised other concerns. South Ossetian representative Leonid Tibilov sought assurances that provision of water to the village of High Avnevi was included in the Avnevi plans. While OSCE officials said they believed that it was, they promised to confirm. When a company from Vladikavkaz (North Ossetia, in Russia) was the recommended winner of the tender for the Tskhinvali project, Georgian representatives asked whether

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the tender was defined legally as an "international tender," something they believed would have required a special process with the Georgian government. The sides agreed to review these two questions in coming days with OSCE at the working level, after which they thought it would be possible to give the projects final approval. Tibilov requested that the three projects be approved only as a group.

14. (SBU) OSCE also reviewed the status of a fourth water project, the construction of a water purification system in Kekhvi. Grist explained that OSCE had learned about the availability of other sources of water near Kekhvi, and it was still reviewing options to see if another approach would make more sense to address water needs in the area. The Georgians stressed that they considered the Kekhvi project one of the top priorities, along with the Tskhinvali reservoirs and the Edissi-Tskhinvali pipeline, and urged that work be started as soon as possible. (Note: The Georgians have privately expressed surprise that OSCE has taken a slower approach to Kekhvi than to other water projects on the approved list of projects. It is true that the Kekhvi project would benefit only Georgian areas, but at the same time the Tskhinvali reservoir project benefits only separatist areas. End Note.)

But No School Construction Yet  
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15. (SBU) Asked by the donors about the three school projects approved by the Steering Committee July 2, OSCE officials said the contracts had not yet been signed. They said one of the winning bidders was asking for a higher price, and the two others had not yet signed their contracts either. The OSCE officials said they were trying hard not to agree to a modified price, because the precedent would likely lead other companies to request the same. The donors agreed, but expressed frustration with the continuing delays, especially with the end of the building season approaching in mountainous areas.

Comment  
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16. (C) Much of this meeting, like previous ones, was devoted to the sides and the donors asking for more detailed information about the projects, and OSCE promising to provide it. Grist expressed hope that communication with the sides would improve once each side's liaison officers started work within the OSCE team; he said each side had submitted a name and these were now going through the OSCE personnel process. We hope this is the case; better communication would help reduce delays in project implementation and also permit some of these technical issues to be resolved before they come before the Steering Committee. The donors' program as a whole has moved frustratingly slowly, but we nevertheless agree with the assessment of Georgian Deputy State Minister for Conflict Resolution Ruslan Abashidze, who recently reiterated to us his belief that the South Ossetia donors' program is the most transparent and constructive of the major international assistance programs in the separatist regions.

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